

TO: Board Members

THROUGH: Kevin Patteson, Executive Administrator

FROM: Amanda Landry, Chief Financial Officer

DATE: August 29, 2014

SUBJECT: Consider: (a) authorizing the Executive Administrator and the Development Fund Manager to take all necessary actions for the issuance, sale and delivery of State of Texas Water Financial Assistance Refunding Bonds in one or more series in an aggregate principal amount not to exceed \$185,295,000; and (b) approving the selection of financial advisor, bond counsels and Sr. Manager underwriter for the negotiation of the bond issue.

ACTION REQUESTED

Authorize the Executive Administrator and the Development Fund Manager to proceed with the subject bonds and selection of advisors.

BACKGROUND

The Texas Water Development Board (TWDB) issues Water Financial Assistance Bonds for the Economically Distressed Areas Program, State Participation, Development Fund and Water Infrastructure Fund programs. When issuing bonds, the TWDB typically structures the bonds with a call date preferably ten years or less.

Per the TWDB Debt Management Policy the agency may refund bonds for savings or programmatic reasons. The policy requires that staff consider a net savings present value threshold of 2% for any refunding transaction. A refunding that does not produce a 2% minimal net present value savings may be considered if it achieves other benefits, such as eliminating restrictive covenants. Any refunding must also consider relevant regulations and compliance.

KEY ISSUES

Attachment 1 details currently callable Water Financial Assistance Bonds by program, series, and par value outstanding that are recommended to be refunded under this action. This list includes bond series originally issued as tax-exempt, taxable, and Alternative Minimum Tax (AMT) bonds.

Our Mission

To provide leadership, information, education, and support for planning, financial assistance, and outreach for the conservation and responsible development of water for Texas

Board Members

Carlos Rubinstein, Chairman | Bech Bruun, Member | Kathleen Jackson, Member

Kevin Patteson, Executive Administrator

The proposed par of \$185,295,000 is a “not to exceed” amount for all series of bonds and will include costs of issuance and rounding amounts. The net proceeds of the bonds will be used to refund currently callable Texas Water Development Board Water Financial Assistance Bonds and to pay costs of issuance. The proposed par amount will be reduced to the extent that prepayments received on one or more of the underlying bond series are used or anticipated to be used to redeem bonds. Staff is monitoring prepayments that may reduce this transaction.

Tax Status of Bonds and Refunding

It is anticipated that this refunding will be issued under multiple series based on the tax status of the bonds and program. Bonds originally issued as taxable may only be refunded as taxable bonds. Bonds originally issued as Alternative Minimum Tax (AMT) may only be refunded as AMT or taxable bonds.

Bonds originally issued as tax-exempt bonds may only be refunded as tax-exempt bonds if the originating bonds met compliance under the Tax Increase Prevention and Reconciliation Act (TIPRA). TIPRA requires that 30% of tax-exempt bond proceeds must be expended in the first year of the bond sale and 95% within three years. If the originating bonds only met a portion of compliance under TIPRA, that portion may be eligible to be refunded as tax-exempt while the ineligible portion may be refunded as taxable. Staff has performed an in-depth analysis of the bonds series recommended to be refunded to determine eligibility under TIPRA and have forwarded that analysis for confirmation by tax counsel.

Advisors

First Southwest Company is recommended to serve as financial advisor and Norton Rose Fulbright LLP and Escamilla & Poneck LLP as bond counsel. Staff recommends Morgan Stanley & Co. LLC to serve as senior manager.

With this selection we will designate one of the bond counsel firms to serve as disclosure counsel. In the past the Board relied upon the underwriter’s counsel for disclosure preparation.

With Board approval, staff will complete appropriate diligence, develop a timeline, engage the service providers, seek debt issuance authority from the Bond Review Board, and take other necessary steps to prepare for the issuance and sale of the bonds. Staff anticipates returning to the Board for adoption of the resolution and approval of the Preliminary Official Statement for any series issued under this item. At that time, staff may also recommend the issuance of the refunding bonds through negotiated or competitive sales as allowed under the Debt Management Policy.

This recommendation has been reviewed by legal counsel and is within the TWDB’s legal authority.

Les Trobman, General Counsel

Attachment(s): 1 – Callable Water Financial Assistance Bonds